97-84006-3

Civic League of Cleveland

Taxation in Ohio

Cleveland, O.

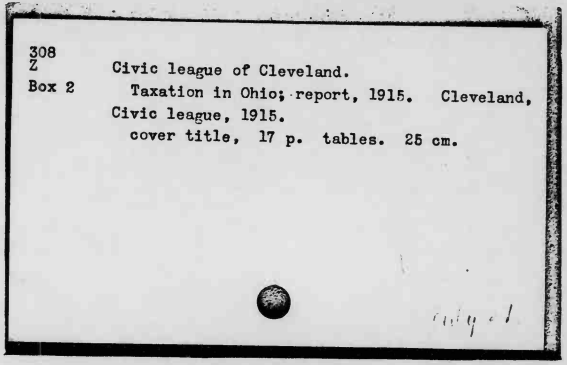
[1915]

97 84006·3
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD


308
Z
Box 2
Civic league of Cleveland.
Taxation in Ohio; report, 1915. Cleveland, Civic league, 1915.
cover title, 17 p. tables. 25 cm.

RESTRICTIONS ON USE: *Reproductions may not be made without permission from Columbia University Libraries.*

TECHNICAL MICROFORM DATA

FILM SIZE: 35 mm REDUCTION RATIO: 12:1 IMAGE PLACEMENT: IA (IIA) IB IIB

DATE FILMED: 1/16/97 INITIALS: AR

TRACKING # : MSH 20011

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

BIBLIOGRAPHIC IRREGULARITIES

MAIN ENTRY: Civic League of Cleveland

Taxation in Ohio

Bibliographic Irregularities in the Original Document:

List all volumes and pages affected; include name of institution if filming borrowed text.

_____Page(s) missing/not available:_____

_____Volume(s) missing/not available:_____

_____Illegible and/or damaged page(s):_____

_____

_____Page(s) or volume(s) misnumbered:_____

_____Bound out of sequence:_____

_____Page(s) or volume(s) filmed from copy borrowed from:_____

_____

X pagination begins with page 5; pages [18-19] unpaginated
_____Other:_____

_____

_____Inserted material:_____

TRACKING#: MSH20011

308
Z
Box 2
REFORM CLUB, NEW YORK
CITY AFFAIRS COMMITTEE

Taxation in Ohio

Report of The Civic
League of Cleveland

1915

The Civic League of Cleveland
821 Engineers Building
Cleveland, O.

51

STATEMENT OF THE EXECUTIVE BOARD

In the investigation of the financial condition of the municipalities, the schools and other governmental agencies in Cuyahoga County, we have become clearly convinced that permanent relief from the present impoverished condition of our local governments will not be secured until Ohio's antiquated and unjust tax system is abolished and a more modern, equitable and just system is established. For that reason, we have prepared the following report on Taxation, to be presented to the delegates at the Tax Conference in Columbus, held under the auspices of the Ohio Municipal League on February 11th and 12th, 1915, and to the members of the General Assembly which is now in session.

It is hoped that out of the discussion there can be developed a constitutional amendment providing a rational tax system, which the people of Ohio will be willing to accept.

We have refrained from discussing those much debated questions, such as single tax, taxation of land values, exemptions from taxation, increment tax; and have confined the report to the two principles which we believe most of our citizens can accept as essential to an equitable and just method of raising public revenue.

THE EXECUTIVE BOARD:

Morris A. Black,	Wm. G. Lee,
Arthur D. Baldwin,	F. F. Prentiss,
Henry E. Bourne,	L. Q. Rawson,
J. W. Frazier,	Duane H. Tilden.

Mayo Fesler, Secretary.
E. M. Hall, Jr., Ass't. Secretary.

(Bascom Little and Thomas P. Ballard refrained from participating in the preparation of this report because of the fact that they are also members of the Tax Commission appointed by the Mayor of Cleveland).

to March 1915 MH

SUMMARY OF REPORT

I. GENERAL PROPERTY TAX.

a. Condemned by tax commissions, tax conferences and tax administrators everywhere.
b. Abandoned in every country except the United States—progressive states adopting amendments providing more rational system.
c. Unjust, because it attempts to put uniform burden on all classes of property regardless of their economic nature or ability to pay.
d. Impracticable, because a uniform tax cannot be enforced.
e. Unsuited to modern industrial and economic conditions .

II. OHIO CENTRALIZED TAX MACHINERY.

a. Is properly organized, but has failed to force personal property, especially intangibles, on to the duplicate.
b. The tax burden still remains unequally distributed.
c. The system is driving capital out of the state.

III. THE REMEDY.

A constitutional amendment providing for classification of property and separation of sources of revenue.

a. Classification of property.
So that tax rate can be adjusted to each class according to its ability to pay.
Working satisfactorily in eight states.
Constitutional amendments submitted in seven other states.

b. Separation of Sources of Revenue.
Advantages:
Conforms to natural conditions of property.
Places property where it can best be assessed.
Makes possible assessment of corporate property by experts.
Extends the principle of local self government.
Insures proper distribution of revenues between state and local government.
Feasible, because state is now getting practically all state revenue from indirect taxes.
Experience in other states entirely satisfactory.

IV. CONSTITUTIONAL TAX AMENDMENT.

Must be flexible enough to meet changing economic conditions.
Must be just and equal in distribution of tax burden.
Must be certain of yielding sufficient revenue for public purposes.

TAXATION IN OHIO

Ohio, the sixth state in the union in population, fifth in wealth, fifth in the extent of its manufacturing industries, and among the first in the general intelligence and culture of its people, is generally recognized as one of the last and least progressive among the states in the character of its taxing system. At every tax conference, Ohio is pointed out as the "horrible example" of what not to do in taxation. She is cited as the one of the states which has blindly insisted upon maintaining and trying to enforce the unscientific, unjust and antiquated general property tax. She is usually referred to as the state where the most rigorous tax inquisitor laws have been enacted; where the most vigorous effort has been exerted to enforce an antiquated and unenforcible tax system; where rigid limitations have been placed on the rate; where centralization of taxing authority has been introduced; and where every device, known to law, has been tried in order to prove that sufficient revenue can be raised by taxing real and personal property at a uniform rate and at its full value—all with the general result that the system has been proved a failure and uniformity has come more and more to be merely another synonym for inequality.

GENERAL PROPERTY TAX—ADOPTED 1825

The general property tax was adopted in this state as long ago as 1825 and all taxable property, both real and personal, was placed on the grand duplicate. It seems to have been so satisfactory that in 1851, the principle was written into the new constitution in the form of a general property tax, to be operative uniformly throughout the state and applied uniformly to all classes and kinds of property.

When the general property tax was first adopted by statute, and even when it was first established in the constitution in 1851, it was a fairly equitable system, because property consisted chiefly of land, which was then much less valuable than at present, a comparatively small amount of tangible personal property which could easily be seen and taxed, and an insignificant amount of intangible personal property which could evade taxation. Railroads, telegraphs, public utilities and other large corporate interests did not exist; governmental expenses were small; the rate was low, and there was therefore less incentive to evade the payment of taxes.

CONDITIONS HAVE CHANGED

But marked changes have taken place since then. Rural land values have increased greatly; urban land values have advanced by leaps and bounds; the amount of personal property has increased enormously; the industrial and commercial interests have developed until they surpass in value the agricultural; and

the forms of wealth have become so varied and complicated that an entirely different set of tax conditions exist at the present time. A system of taxation which was fairly equitable and just in 1851 has, because of these great economic and social changes, become unequal, unjust and entirely unsuited to the needs of a great and growing industrial state. Taxation, like all other incidents of a growing civilization, must be altered to meet changing needs.

The experience of every state and nation of any importance, where the general property tax and the unit rule have been applied, has resulted in the same inequalities and injustices. Special tax commissions, appointed to investigate the tax situation in various states have, with one exception, unsparingly condemned the system as impractical in administration and fruitful of great injustice. They have uniformly advised the abandonment of the general property tax and the substitution of a form of taxation which adapts itself to the nature of the property to be taxed.

GENERAL PROPERTY TAX UNIVERSALLY CONDEMNED

In the following states tax commissions appointed to investigate the sources of revenue and methods of taxation have made such recommendations: California, Illinois, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Missouri, New Hampshire, Ohio, Oregon, Washington and Virginia.

A special tax commission appointed in Ohio as early as 1893, speaking of the evils of the Ohio system, said:

> "The system (the general property tax) as it is actually administered, results in debauching the moral sense. It is a school of perjury. It sends large amounts of property into hiding. It drives capital in large quantities from the state. Worst of all, it imposes the burdens upon the farmers in the country, all of whose property is taxed because it is tangible, upon the man who is scrupulously honest, and upon the guardian and executors and trustees whose accounts are matters of public record."

Another Special Tax Commission, appointed in 1906, came to practically the same conclusions.

> "We have found that the general property tax is a failure for purposes either of revenue or equality; that more than half of the total wealth of the state in the form of tangible property alone escapes taxation; that of intangible property, such as moneys, credits, stocks and bonds, subject to taxation under existing laws, not ten per cent, perhaps not five per cent, is listed on the duplicate. . . . . .
> The general property tax has long since served its day. Ever since its adoption, the grand duplicate of the state has shown more and more clearly the unequality of contribution between real and personal property. In 1852, the grand duplicate of all property, real and personal, in the state was $507,581,000; in 1907 it was $2,280,563,198. In 1852 the total value of all real estate was $254,937,000. In 1907 it was $1,544,391,318. In 1852 the total value of all personal property in the state was $152,644,000; in 1907 it was $736,171,880. In other words, the first year after the adoption of the present constitution, the tax value of all real estate in Ohio was 2½ times that of all personal property, while at the present day, after fifty-five years of development in railroads, telegraphs, telephones, electric light and other modern utilities, as well as industrial enterprises of every kind, with the subsequent enormous growth in the issue of stocks and bonds, the tax value of all real estate in Ohio is still 2 1-10 times that of all personal property. And this is true notwithstanding the fact that corporations generally in this state are required to return as personal property all real estate used in the operaion of their business."

The Missouri Special Tax Commission in 1906, took the same view:

"No change can be made in our revenue system correcting the existing inequalities without amending the constitution of the state . . . . We are satisfied from careful study of our revenue system that a change is required to remedy existing radical defects and to secure equality to our citizens in bearing the public burdens of the state . . . . . "

A special tax commission in California in 1905 took a similar position:

"The present tax system of California is antiquated. It was two hundred years old when first adopted in this state and has not been essentially modified during the fifty years that we have used it . . . . . The greatest inequality in the operation of our revenue system arises from the fact that personal property escapes taxation almost entirely . . . . . Comparatively little property in the form of stocks and bonds of foreign corporations or of credits or amounts due to residents of the state outside the state is ever placed on the assessment rolls . . . . . Our experience in California in regard to taxation of this class of intangible property is the exact counterpart of the experience of every one of the American states which have attempted to enforce similar laws . . . . And the underlying reason for the failure to reach it and for the objection which people in general have to paying it is principally to be found in the fundamental fact that it should not be taxed at all."

The Virginia Special Taxation Commission in 1911 said of the personal property tax:

"We have found in the schedule for the taxation of personal property the most complete breakdown of any tax law on our books. Inequality, undervaluation, neglect of the law and carelessness of assessment."

The Louisiana Tax Commission in 1908, in its recommendation that the state abandon the effort to tax all property at a uniform rate, said of the tax on intangibles:

"The universal experience of mankind shows that the tax on this kind of property cannot be collected, with fairness and impartiality . . . . . The opinion of political economists, tax officials and tax commissions are absolutely unanimous on this question . . . . . Indeed, its failure is shown by testimony overwhelming in quantity, unimpeachable in quality and so far as we read without a dissenting voice."

CONDEMNED BY TAX CONFERENCE

A committee of the International Tax Conference, composed of the ablest and most experienced men of the country, who are giving serious and unprejudiced thought to the question of taxation, was appointed in 1909 to inquire into the causes of the failure of the general property tax. At the 1910 conference, they said in the conclusion of their report:

"To sum up, your Committee finds:

That the general property tax has broken down.

That it has not been more successful under strict administration than where the administration is lax.

That in the states where its administration has been the most stringent, the tendency of public opinion and legislation is not toward still more stringent administration, but toward a modification of the system.

That the same tendency is evident in the states where the administration has has been more lax.

That the states which have modified or abandoned the general property tax show no intention of returning to it.

That in the states where the general property tax is required by constitutional provisions, there is a growing demand for the repeal of such provisions.

We conclude, therefore, that the failure of the general property tax is due to the inherent defects of the theory. That even measurably fair and effective administration is unattainable, and that all attempts to strengthen such administration serve simply to accentuate and prolong the inequalities and unjust operation of the system."

The conference, as a body, endorsed the report of the committee by adopting resolutions declaring the general property tax a failure, and urged upon the states the adoption of some more equitable system of raising revenue for public purposes.

OHIO CONTINUES ANTIQUATED SYSTEM

Notwithstanding this almost unanimous opinion of economists, investigators, tax commissions, and those charged with the administration of the system, that the general property tax is unjust, that it leads to serious inequalities and that, in so far as administration is concerned, it is impracticable, the Ohio Constitutional Convention, in 1912, forced a continuance of the system, and the legislature by means of the Smith one percent tax law, Warnes law and other tax laws have sought by every legislative means, to enforce the taxing of all property by the rigid rule of uniformity.

One of the chief arguments advanced in favor of the Smith one percent law was that, if the maximum rate were fixed and could be kept at one percent, tangibles would flock out of hiding and men would make voluntary return of all their personal property, and the state and its political subdivisions would have ample revenue for the operation of government. Former Governor Harmon, the law's chief advocate, said in his message to the General Assembly:

"The constitution points out the only road to fairness. And it is the only safe road for the great majority of tax payers . . . . . It is the universal experience that in struggles for special advantages those get them who need them least, while others are made to pay for them. All property of every sort should, therefore, be valued by the rule ordained by the constitution."

The Governor and the majority in the legislature declared that a low rate and an efficient body of tax officials could equalize the assessments and bring intangibles out of hiding, and force personal property on to the duplicate.

In 1910, before the new law was effective, personal property returned for taxation amounted to $827,370,943, and constituted 32.3% of the grand duplicate. In 1913 it had increased to $2,300,155,670, and constituted 34.1% of the grand duplicate. In the same three years, real estate on the duplicate increased from $1,656,944,631 to $4,602,951,278. In other words, the two forms of property held their relative positions as to the amount of increase. Personal property showed no relatively stronger disposition to get on the duplicate than it had under the old law.

CENTRALIZED TAX MACHINERY

In 1913, the General Assembly determined to strengthen the taxation machinery by centralizing it under state control. The Warnes law was passed, providing for deputy tax commissioners in each county, appointed by the Governor; and some 1966 deputy assessors were appointed by the deputy commissioners from civil service eligible lists. Orders were sent out that all property, both real and personal, must be placed on the duplicate. A more efficient tax machinery and organization has probably not existed in this or any other state, and tax officials have probably never had greater encouragement to perform their duty fully and without favor; yet, in spite of their industry and efficiency, the

ratio of personal property to real estate continues approximately the same, i. e., 62⅔% of real estate, and 33⅓% of personal property. In a growing industrial state like Ohio, the true value of personal property is, no doubt three or four times as great as that of real estate; yet only one third of the total returns consist of personalty.

PERSONAL PROPERTY ON GRAND DUPLICATE

The following table, compiled from the state auditor's and tax commission's reports, showing the total of the grand duplicate for the decades from 1850 and the ratio of real and personal property returns is illuminating on this point.

Year	Real Property	Percent of Total	Personal Property	Percent of Total	TOTAL
1850	341,388,838	77.6%	98,487,502	22.3%	439,876,340
1860	639,894,311	72.0%	248,408,290	27.9%	888,302,601
1870	707,846,836	60.6%	459,884,861	39.3%	1,167,731,697
1880	1,102,049,931	70.7%	456,166,134	29.2%	1,558,215,965
1890	1,232,305,312	69.3%	545,933,165	30.7%	1,778,138,477
1900	1,274,203,721	69.4%	559,849,507	30.2%	1,832,053,228
1910	1,656,944,631	63.3%	827,370,943	33.3%	2,484,315,574
1911	4,273,436,712	68.9%	1,927,863,876	31.08%	6,201,303,588
1912	4,335,665,521	66.8%	2,145,393,637	33.1%	6,481,059,158
1913	4,418,953,299	65.6%	2,300,115,670	33.8%	6,790,068,969
1914	4,602,951,278	60.7%	*2,979.401,219	39.2%	7,582,352,497

*This includes real estate belonging to public utility companies and the $311,000,000 assessed against John D. Rockefeller.

In connection with the inequalities produced by failure of so large a percentage of personal property to appear on the duplicate it is interesting to note the inequalities in the assessments of personalty. For example, the 1912 grand duplicate shows 859,101 horses returned at an average value of $107.68 each. Yet in the several counties the valuation varies from $82 to $138 per head. 1,273,688 head of cattle were returned at an average appraisal of $33.54 per head, which varied in the several counties from $23 to $44.

INTANGIBLES ON THE DUPLICATE

The following table will show the ineffectiveness of even the most efficient taxing system to bring out intangibles, including money, credits and stocks and bonds.

Year	Total Grand Duplicate	Total Intangibles	Percent of Total
1870	1,167,731,697	136,273,860	11.67%
1900	1,832,053,228	143,389,135	7.85%
1912	4,335,665,521	306,756,000	7.08%
1914	*7,271,352,497	498,548,114	6.84%

*The $311,000,000 assessed against Mr. Rockefeller is subtracted from both columns.

A more convincing proof that the law has failed to force intangibles on the the tax list could not be presented. The true value of taxable intangible property in Ohio has been conservatively estimated at $1,500,000,000. Only $498,000,000 or less than one-third is now on the duplicate. According to the findings of the Cuyahoga County Tax Commission, it is costing 7% of the personal tax collected to get personal property on the duplicate, and 1/33 of 1% of real estate. If the 1914 duplicate is the "result of the enforcement of all tax laws which have been on the books for many years," as claimed by the State Tax Commission, it would be interesting to speculate on the cost of attempting to secure a full return on the other two thirds of intangibles.

BALTIMORE AND CLEVELAND COMPARED

In contrast to the Ohio situation, we would cite the experience of Maryland. The legislature of that state in 1896 made a low rate of 3 mills on intangible property for the city of Baltimore. The assessment at that time was only $6,000,000. Under the 3 mill law, the return on intangibles increased rapidly until in 1914 the assessment rolls showed a total of $191,000,000. The amount of taxes collected on these intangibles had increased from $12,000 to $537,000. In the City of Cleveland, a city of practically the same population, but with its 15 mill tax, the 1914 duplicate, including both individual and corporate intangibles, shows a total of only $21,458,590; and if the returns from Bratenahl, Cleveland Heights, East Cleveland and Lakewood be added to this, the sum total of the intangible returns for this entire industrial district is only $33,878,850. The total tax collected on this total at 15 mills will amount to less than $500,000 or less than Baltimore's collection with its 3 mill levy.

We have no desire to minimize, in the least, the effectiveness of the work done by the state tax commission and county tax authorities—the figures show enormous increases in both real and personal property, but they also show that even under thoroughly efficient tax machinery and a comparatively low tax rate, intangibles are not brought out of hiding and uniformity still means inequality and injustice. The facts are, according to Mr. Pleydell of the New York Tax Association, that the revenues derived from intangibles in Ohio are smaller relatively than in many states where the general property tax and the uniform rule do not prevail. Experience shows that a low and reasonable rate on intangibles will produce a greater revenue than a high rate.

SYSTEM—WRONG IN PRINCIPLE

But even if the one percent law had been the efficient instrument which its friends claimed for it and if practically all tangible and intangible property had been returned, this would not have remedied the evils of the general property tax; for a tax on all property levied according to a uniform rule is wrong in principle and a lower rate only lessens the wrong in degree.

To any thoughtful mind it is clear that the various forms of property differ materially in their nature and productivity, in the degree of benefit which they derive from the expenditure of public revenue for their protection or improvements, and in their ability to contribute for public purposes. For example, land especially urban real estate, yields enormous returns in the form of increased values and rents. It has a productive value, according to location ranging from

10% to 30%. Tangible personal property in the form of buildings is usually expected to yield about 10% while intangible personals, consisting largely of securities, yield an income on the average of 4% to 5%. It is evident that a uniform rate which in the one instance takes one-seventh of the total income for public purposes, and in the other only one-third, is unjust and unequal. And this inequality is magnified when it is realized that real estate benefits enormously from public expenditures for improvements, while intangible personal property benefits only slightly. In other words, a reasonable rate of taxation on real estate becomes practical confiscation when applied to moneys and credits.

It is unreasonable to ask that money drawing 4% to 6% should pay $1.55 out of every $4.00 or $6.00 income into the public treasury; while real estate pays only $1.55 out of every $10 or $30 income and increment, and receives in return the greater benefits from the contribution. It is generally recognized that government should not take more than 8% to 10% of the income of any form of property. The present tax laws in Ohio are taking nearly 25% of the income on moneys and credits and less than 8% of the income, including rents and increment, on urban real estate. The injustice and inequality of such a system is apparent. The only form of taxation which is just and equal is that which is adjusted to the different classes of property accordingly as they differ in their nature and economic characteristics.

The United States Supreme Court expressed this principle clearly when it said:

> "This Court has repeatedly laid down the doctrine that diversity of taxation both with respect to the amount imposed and the various species of property selected for bearing its burden, or for being exempt from them is not inconsistent with a perfect uniformity and equality of taxation in the proper sense of those terms; and that a system which imposes the same tax upon species of property, irrespective of its nature or condition or class, will be destructive of the principle of uniformity and equality in taxation and of a just adaptation of property to its burdens."
>
> Pacific Express v. Siebert, 142 U. S. 351.

THE REMEDY

A system of taxation which is unsound in principle, which has proved its inadaptability to modern conditions, which results in evasion and dishonesty, and which, if fully enforced, would prove destructive of industry and would amount to confiscation, should be abandoned if some other practicable system of proven worth is available.

We have such a system at hand—one which has time after time been recommended to states for adoption, namely: **classification of property for purposes of taxation and a separation of sources of state and local revenue.**

CLASSIFICATION OF PROPERTY

Practically every tax commission, tax administrator, and student of taxation has recommended the adoption of the principle of classification, whereby property can be classified and the rate of taxation adjusted to each class according to its economic nature. Every progressive tax amendment submitted to the voters of different states has made classification an essential feature. The voters of Ohio

have twice approved the principle by a majority vote, but not a majority of those voting at the election as required under the old constitutional provision.

New York, Pennsylvania, California, Minnesota, Michigan, Oklahoma, Arizona and Virginia have established full freedom in dealing with any class of property. Four states,—Kansas, North Carolina, North Dakota and Oregon—voted upon amendments to this effect in November and three other states,—Indiana, Kentucky and Maryland,—will vote upon similar constitutional amendments in 1915. Classification is slowly displacing uniformity and everywhere increases the revenues derived, especially from intangible personal property, and results in a far greater equalization of the burden of taxation.

EXPERIENCE IN MINNESOTA

Minnesota, which for years tried to enforce the general property tax and unit rule, in 1910 adopted an amendment permitting classification. The legislature in 1911 enacted a law establishing only a partial classification, by providing for a separate listing of money and certain classes of credits, and imposing a flat tax rate of three mills on the dollar in lieu of all other taxes. The results are shown in the following statement taken from the 1912 report of the commission:

> "In 1910, the assessed value of money and credits now included in the three mill tax law amounted to $13,919,806. In 1911, the first year under the new law, the amount returned for taxation was $115,676,136, an increase of 731 per cent over the preceding year. With three of the counties of the state estimated, the assessment of money and credits this year (1912) is $135,034,476, being an increase of 16.7 per cent over 1911 and 870 per cent over 1910 . . . . . That the assessment is much more widely and hence much more equitably distributed among the people is shown by the large increase in the number of people assessed under the new law."

The rate of taxation on that class of property in 1910 was 28 mills and the total tax collected was $379,754.58; in 1911 when the tax was only three mills, the total collected was $347,028.38, a decrease of only 8.2%. The commission predicted that after the law was in efficient operation the total returns would exceed those obtained from a higher rate. So well satisfied have the people of Minnesota become with classification that the principle was extended in 1914 to all property, real and personal, which was divided into four classes to be assessed at different percentages of their true value.

A classification of property is, in our opinion, essential to a fair and just system of taxation. Different methods of taxing and different ratios of taxation for different classes of property are entirely consistent with the fundamental principles of equality, so long as they do not permit of unwarranted discriminations.

SEPARATION OF SOURCES OF REVENUE

The other essential change necessary in Ohio's taxing system to make it equitable and workable, is the separation of sources of revenue, by means of which the state and local communities will have different sources of income. "This," says Professor Seligman, "is the one avenue of escape which is now being sought by our most progressive commonwealths." The general principle

of separation which has been adopted by these states reserves to the state the taxing of corporate property and leaves to the counties and cities the taxing of real estate and individual personal property. The advantages of separation are many:

A. Separation conforms to the natural conditions of property. It leaves to the state the revenues from those properties which are state wide in their extent, such as railroads, telegraphs and telephones, insurance companies and other corporations—and retains for the local county and city governments those sources which are essentially local in character.

B. Separation places property where it can best be assessed. If it is not then taxed, the locality is the only sufferer. Under the present policy of a state levy on real estate and individual personal property, a premium is placed upon evasion and the burden falls on those counties which most efficiently enforce the law.

Cuyahoga County and a few other populous counties in the state have experienced the injustice of the effort to tax corporations, statewide in their extent. For example, the rolling stock and other personal property of railroads terminating in Cleveland which by reason of the source of business should be largely taxed in Cleveland and at the Cleveland rate are by state law distributed over the whole extent of the line, the property is taxed in proportion at a much lower rate in rural counties, furnishes those rural counties a source of revenue all out of proportion to actual value of the railroad property in the country, and deprives Cuyahoga County of a return of some $20,000,000 or $25,000,000 which legitimately belongs on the duplicate from this county. This unjust distribution has existed for years. Naturally the railroads have not complained because of the lower rates in rural counties. The rural counties have not complained because of the additional revenue. After most insistent demands on the part of the local tax commission, and the county auditor, $15,000,000 of this sum has been added to the Cuyahoga duplicate this year. If separation of sources of revenue had been in operation, as in some other states, the inducement to evade their share of state taxes by individual counties and the disposition to favor rural counties to the detriment of the more populous would have been removed.

C. Separation makes possible the assessment of corporate property by experts, which is essential to any equitable assessment. Local assessors are not, and, in the nature of the case, cannot be experts. The state has need of trained men and can employ them for full time service in the tax department.

D. Separation extends the principle of "home rule," It enables a community to determine for itself how much it is willing to be taxed for the support of the local government. Diversity of conditions and interest makes diversity of taxing methods entirely feasible and desirable.

HOME RULE IN TAXATION

Whether or not this principle of home rule in taxation should be adopted to the same extent that we have adopted it in the government of cities is open to question. Taxation is not wholly a matter of local concern—it is statewide in its effect. The economic condition of one section directly affects the condition of all sections of the state. This is especially true in matters of taxation which affect so quickly the whole course of industrial development of a community.

The danger which accompanies complete home rule is the temptation to unwise exemptions, especially competitive exemptions adopted by different communities for the purpose of attracting new industries. Fostering of new industries by various kinds of exemptions has been a frequent and favorite method of building up one city to the disadvantage of another. Competition under complete home rule would become keener and the result would be unrestricted discriminations which would bring temporary advantages to those communities adopting such a policy, but a future disadvantage both to such communities and the state as a whole.

"Home rule" in taxation which has grown out of the demand for separation of sources of revenue goes much further than the principle of separation. Separation still leaves in the hands of the state legislature the power to regulate for the sake of uniformity. "Home rule" would give the local community the authority to raise its revenue in whatever way it pleases, taxing what it pleases and exempting what it pleases.

The state needs to preserve a proper balance between centralization and complete local autonomy. The state should establish certain conditions and limitations which will prevent unfair discriminations and cut throat competition; but at the same time, give to the local communities the power and discretion to decide within those broad limitations what property will be taxed for revenue purposes and what exemptions shall be made. The principle of separation has been accepted by the voters of several states but absolute home rule in taxation has, in every instance, been rejected usually by an overwhelming majority of the voters. We can hardly expect the voters of Ohio to look with any favor on a proposal for complete and unrestricted home rule.

TAX SYSTEM—IMPOVERISHED CITIES

If the principle of separation and segregation of sources of revenue had been in operation in Ohio during the past three years, the impoverished condition of the cities and schools, in the presence of an overflowing state treasury would not have occurred. In his recent report, the State Auditor reports a balance in the state treasury on November 15, 1914, of $8,166,480, while a special commission appointed to investigate the financial condition of cities reports cities failing to meet the growing needs of their increasing populations, shirking their duties to their sinking funds, carrying large floating debts, and borrowing upon future tax receipts in order to meet current demands. No better proof of this impoverishment is needed than the following table, prepared by the finance commission, showing the tax loans and tax advances made by the first ten cities during 1914.

City	General Purpose Tax Receipts	Tax Loans	Tax Advance	Total Advances	Percentage advanced
Cleveland	$1,823,286.43	$765,000	$ 150,000	$ 915,000	50
Cincinnati	751,856.88		1,280,000	1,208,000	73.1
Columbus	525,850.69				
Toledo	484,458.61		26,100	261,000	53.8
Youngstown	238,763.71		5,000	22,000	9.2
Dayton	352,013.83	75,000		75,000	21.3
Akron	296,893.82	152,000		152,000	51.2
Canton	129,124.29	23,300		23,300	18
Springfield	123,108.02	77,000		77,000	62.5
Hamilton	86,752.41	8,000	40,000	40,000	55.3

One of the recommendations of the Commission looking toward a remedy for this bad financial condition is for the state to abandon its habit of resorting to the general property tax for a portion of its revenue.

STATE WITH PLENTY—CITIES IN WANT

The following comparative table of per capita increases or decreases in tax revenue as between the state and the cities, points to the need of some new adjustment of the division of revenues.

	Population	Per Capita Tax Receipts
State:		
1911	4,500,000	$ 2.89
1912	4,700,000	2.98
1913	4,800,000	3.24
1914	5,000,000	4.11
Cleveland:		
1911	587,000	7.65
1912	613,000	7.05
1913	639,000	6.59
1914	665,000	5.73
Cincinnati:		
1911	368,000	10.16
1912	372,000	9.62
1913	376,000	10.26
1914	380,000	9.89
Columbus:		
1911	190,000	5.01
1912	198,000	5.20
1913	206,000	5.22
1914	214,000	3.77
Toledo:		
1911	173,000	6.22
1912	198,000	6.11
1913	183,000	5.63
1914	188,000	5.16
AVERAGE OF TEN CITIES		
1911	173,500	6.07
1912	179,800	5.73
1913	186,100	5.67
1914	192,400	5.06

The table shows that the state, with no bonded debt, has increased its per capita income in the four years from $2.89 to $4.11, and each year has had an increasingly large cash balance of $3,000,000, $5,000,000 and $8,000,000, while the larger cities with heavy bonded indebtedness and rapidly increasing populations have had their per capita income gradually decreased each year, have struggled with growing deficits, and have finally been forced to resort to short time loans. A separation of sources of revenue would have prevented such unequal financial conditions and such unfair discrimination. The state is already receiving most of its income from indirect taxes and still has other sources of revenue yet untouched, such as franchise or corporate excess taxes, taxes upon the production of coal, oil, gas and other minerals, and income and direct inheritance taxes. If these new sources were developed and due economy shown in the operation of the state government, the state could abandon permanently the general property tax for state purposes.

STATE REVENUES FROM INDIRECT TAXES

The following table showing total state revenues for 1914 from direct and indirect taxes indicates the declining importance of the general property tax in raising the revenues for the state.

General Tax Sinking Fund	$ 218,843.24
General Tax Common School Fund	2,188,434.28
General Tax University Fund	604,157.80
General Tax Highway Fund	3,260,757.10
Liquor Tax	1,639,053.62
Liquor Licenses	664,131.95
Corporation Insurance	1,498,590.75
Corporation Initial Fee	304,761.44
Corporation Annual Fee	2,314,568.35
Corporation Excise Fee	3,348,200.19
Automobile Licenses	693,945.70
Inheritance Taxes	112,753.82
Cigarette Taxes	57,694.50
Oil Inspection Fee	131,276.76
Superintendent of Banks	67,591.25
Film Censoring	21,845.60
Building and Loan Associations	34,924.03
Public Utility Commissions	77,628.19
Boiler Inspection Fees	27,972.50
Exam. Steam Engineers	45,591.00
Board of Agriculture	235,143.62
Fish and Game Comm.	176,666.53
Canal Lands	164,443.72
Public Audits	128,388.40
Day Patients—State Hospital	369,782.83
State Institutions	610,953.55

Ohio Reformatory	223,272.44
Interest on Deposits	320,996.34
All Other Sources	999,169.65
Total Receipts	$20,544,539.15

Only a fraction over $6,000,000 of the total $20,000,000 comes from direct or general property tax and this direct tax is more than offset by the surplus in the treasury at the close of the year, so that the state is practically assured of an adequate income whenever it adopts the policy of separation.

EXPERIENCE IN CALIFORNIA

California, a few years ago, adopted a constitutional amendment empowering the legislature to enact laws for the classification of property and the separation of sources of income. Liberal laws were enacted for the complete separation of state and local taxation. The first year's experience proved entirely satisfactory to the state and also the political subdivisions. The state obtained considerably more revenue than it had before been receiving; the local governments, on the whole, had approximately $4,000,000 more to spend; the average tax rate upon property was reduced more than 20 cents on the $100; and the small tax payers were actually taxed less heavily than in former years.

It is generally deemed advisable in the application of the principle of separation to provide the state with a safe margin in order to insure sufficient funds for state expenses. This can easily be done, as pointed out by Prof. Seligman and others, by reserving to the state the right, in case of inadequate revenue, to secure additional revenue by apportioning it to the several counties on the basis of the total expenditures of those counties. This basis of apportionment is chosen so that the state revenue necessary to be raised will not be a state tax on property but will be a portion only of the local revenue distributed to each community according to its ability to pay.

CONSTITUTIONAL AMENDMENT

In order to secure for Ohio relief from its rigid and antiquated system of taxation, a constitutional amendment is necessary. It is not the purpose of this report to suggest the particular wording of a proposed amendment, but only to indicate the serious defects of the present constitutional provisions and emphasize some of the essential principles to be included in an amendment which it is hoped will be submitted in response to a wide spread demand of the people of the state.

No system of taxation will prove satisfactory for any length of time in a wealthy and diversified industrial state like Ohio unless it is elastic; easily adjusted to meet continually changing social, economic and industrial conditions; just in its distribution of the tax burden; and certain of yielding sufficient revenues for public purposes. In the appendix to this report are printed a number of constitutional provisions or proposed amendments from other states which are generally regarded as among the more progressive constitutional provisions and as fulfilling one or more of the above requirements.

We believe there is no more urgent task before the people of Ohio than the task of preparing and submitting to the voters a sane, progressive and practical constitutional tax amendment which will permit the enactment of laws establishing a fair, just and equitable method of raising revenue for public purposes. The present system is unfair, unsatisfactory and is driving capital out of the state. Trust companies in the east are registering stocks and bonds owned by Ohio citizens and, for a nominal fee, are taking care of the dividends. These stocks and bonds escape taxation. Municipal bonds which ought to be sold to Ohio investors are of no interest to them because they are taxed by the uniform rule. The strict enforcement of the law, instead of lifting the burden on the farmer and small home owner, makes the man who owns tangible personal property such as horses, cattle, farm implements, grain, farm products, or a well furnished home, bear the brunt of taxation. It is not a question of approving such methods of evading taxation, but of recognizing the fact that the general property tax is not a just method of collecting revenue, and has been a failure in Ohio and everywhere it has been tried.

It is our firm conviction that if Ohio will adopt a rational tax system, one in which property will be taxed in accordance with its economic condition and at a rate which it can stand, tax evasion will largely cease and a great majority of our citizens will, without hesitation, assume the burden which justice and equity places upon them.

CONSTITUTIONAL PROVISIONS

(The following constitutional provisions or proposed amendments are printed in order to indicate the tendency toward classification of property and separation of sources, and to furnish some illustrations of progressive attempts to remedy unwise and antiquated tax provisions).

CALIFORNIA:

(Adopted 1910).

Section 1. All property in the state except as otherwise in this constitution provided, not exempt under the laws of the United States, shall be taxed in proportion to its value, to be ascertained as provided by law, or as hereinafter provided. The word "property," as used in this article and section, is hereby declared to include moneys, credits, bonds, stocks, dues, franchises and all other matters and things, real, personal and mixed, capable of private ownership; provided, that a mortgage deed of trust, contract, or other obligation by which a debt is secured when land is pledged as security for the payment thereof together with the money represented by such debt, shall not be considered property subject to taxation; and further provided that property used for free public libraries and free museums, growing crops, property used exclusively for public schools, and such as may belong to the United States, this State, or to any county or municipal corporation within this State shall be exempt from taxation. The Legislature may provide, except in the case of credits secured by mortgage or trust deed, for a reduction from credits of debts due to bona fide residents of this State. All buildings and so much of the real estate on which they are situated as may be required for the convenient use and occupation of said buildings, when the same are used solely and exclusively for religious worship, shall be free from taxation; provided that no building so used which may be rented for religious purposes and rent received by the owner therefor, shall be exempt from taxation.

All bonds hereafter issued by the State of California, or by any county, city and county, municipal corporation, or district (including school, reclamation and irrigation districts) within said state, shall be free and exempt from taxation.

Section. 2. Land, and the improvements thereon, shall be separately assessed. Cultivated and uncultivated land, of the same quality, and similarly situated, shall be assessed at the same value.

Section 10. All property, except as otherwise in this Constitution provided, shall be assessed in the county, city, city and county, town or township, or district in which it is situated, in the manner prescribed by law. The personal property of every householder to the amount of one hundred dollars, the articles to be selected by each householder, shall be exempt from taxation.

Section 11. Income taxes may be assessed to and collected from persons, corporations, joint-stock associations or companies resident or doing business in this state, or any one or more of them, in such cases and amounts, and in such manner as shall be prescribed by law.

(Then follows a long amendment fixing the rates on various forms of property).

KANSAS:

(Defeated November, 1914).

Section 1. The Legislature shall have power to establish and maintain an equitable system for raising state and local revenue, and may classify the subjects of taxation so far as their differences justify the same, in order to secure a just return from each. All property used exclusively for state, county, municipal, literary, educational, scientific, religious, benevolent and charitable purposes, and personal property to the amount of at least two hundred dollars for each family, shall be exempted from taxation. Taxes may be imposed on incomes, franchises, privileges and occupations, which taxes may be graduated and progressive, and reasonable exemptions may be provided.

KENTUCKY:

(Adopted in 1912, but declared unconstitutional because of failure to advertise sufficiently).

Section 1. The General Assembly shall provide by law an annual tax, which with other resources, shall be sufficient to defray the estimated expenses of the commonwealth for each fiscal year. Taxes shall be levied and collected for public purposes only and shall be uniform upon all property of the same class subject to taxation, within the territorial limit of the authority levying the tax; and all taxes shall be levied and collected by general laws.

The General Assembly shall have power to divide property into classes and to determine what class or classes of property shall be subject to local taxation. Bonds of the state, counties, municipalities, taxing and school districts shall not be subject to taxation.

MAINE:

(Adopted in 1913).

Section 8. All taxes upon real and personal estate, assessed by authority of this state, shall be apportioned and assessed equally according to the just value thereof. But the legislature shall have the power to levy a tax upon intangible personal property at such rate as it deems wise and equitable without regard to the rate applied to other classes of property.

MINNESOTA:

(Adopted in 1905).

Section 1. The power of taxation shall never be surrendered, suspended or contracted away. Taxes shall be uniform upon the same class of subjects, and shall be levied and collected for public purposes, but public burying grounds, public school houses, public hospitals, academies, colleges, universities, and all seminaries of learning, all churches, church property, and houses of worship, institutions of purely public charity, and public property used exclusively for any public purpose, shall be exempt from taxation; and there may be exempted from taxation personal property not exceeding in value $200, for each household, individual or head of a family, as the legislature may determine. Provided that the legislature may authorize municipal corporations to levy and collect assessments for local improvements upon property benefitted thereby without regard to a cash valuation, and, provided further, that nothing herein contained shall be construed to affect, modify or repeal any existing law providing for the taxation of the gross earnings of railroads.

(Provisions proposed but not adopted).

Section 1. The power of taxation shall never be surrendered or suspended.

Section 2. All taxes shall be uniform upon the same class of subjects within the territorial limits of the authority levying the taxes; and shall be levied and collected under general laws for public purposes.

Section 3. The legislature may, by general laws, provide for the apportionment to counties of the amount of revenue to be raised therein for state purposes, and may, in any law providing for such apportionment, authorize counties to select the subjects upon which revenue is to be raised therein for state or county purposes, and to apportion such revenue among the cities, villages and townships of the county.

Section 4. The legislature may, by a general law or a special act, authorize municipal corporations to levy assessments for local improvements, or upon the property to be benefitted by such improvements, or both, without regard to a cash valuation, and in such manner as the legislature may prescribe.

NORTH DAKOTA:

(Adopted 1914).

Section 1. Taxes shall be uniform upon the same class of property including franchises within the territorial limits of the authority levying the tax, and shall be levied and collected for public purposes only; but the property of the United States, and of the state, county and municipal corporations, shall be exempt from taxation; and the legislative assembly shall by general law exempt from taxation property used exclusively for school, religious, cemetery, charitable and other public purposes and personal property to any amount not exceeding in value two hundred dollars for each individual liable to taxation; provided that all taxes and exemptions in force when this amendment is adopted shall remain in force, in the same manner and to the same extent, until otherwise provided by statute.

OREGON:

(Defeated in 1914).

Section 1. The legislative assembly shall, and the people through the initiative may, provide by law uniform rules of assessment and taxation. Taxes shall be levied on such subjects and in such manner as shall be prescribed by general law. Reasonable classifications of the subjects of taxation may be imposed. Taxes may be imposed on incomes, from whatever source or sources derived; such taxes may be either proportional or graduated and progressive, and reasonable exemptions may be provided.

20011

END OF
TITLE